

Department of Administration

Title: Risk Retention

Policy #: 7.03

Effective Date: February 16, 2007

Approved: Brett E. Dahl

I. Policy Purpose

To purpose of this policy is to specify the responsibilities of the Risk Management & Tort Defense Division (RMTD) and state agencies for the payment of deductibles and claims.

II. Definitions

Deductible - An amount retained by a state agency or the Risk Management & Tort Defense Division (RMTD) before commercial insurance.

Excess Insurance – That portion of a loss excess of the state's deductible.

Premium Discount - A discount applied to budgeted insurance premium.

Policy Limit - The total amount of insurance provided in the event of a loss for various loss exposures. Limits may vary by insurance and exposure.

Property/Casualty Fund – A fund administered by RMTD that centrally pays for insurance, claims, and associated costs in behalf of state agencies.

Retained Loss (Risk Retention) - The dollar amount of a loss assumed either by state agencies or paid by the property/casualty insurance fund that is not covered by insurance.

III. Retention Criterion

- A. Losses that are ideally retained are those that are limited in individual size to an amount clearly within the agency's or property/casualty fund's capacity and are unlikely to occur in larger numbers during a short period of time. Examples: Collision damage to state vehicles.
- B. State agencies retain losses that exceed insurance policy limits or uninsurable loss exposures such as damage due to wear and tear, latent defect, inherent vice, rust, rotting, mechanical breakdown, settling, cracking, animals, vermin or rodents, and pollutants. Example: Water impact damage and wear and tear to a seawall.

- C. State agencies retain the deductibles on commercial or self-insurance coverage unless RMTD specifically participates in the deductible and a prior written agreement is in existence. For example: State participants retain the first \$1,000 of each property loss and RMTD satisfies the rest of the commercial insurance deductible before the insurance carrier is obligated. Agencies retain all other deductibles on commercial policies procured at their request.
- D. The property/casualty insurance fund **MAY** pay in whole or in part, uninsured or retained losses on behalf of state agencies. Consideration shall be given to the following:
 - 1. an agreement existed with the agency prior to the loss;
 - 2. the loss was not foreseeable or expected,
 - 3. the agency cannot provide or fulfill a vital service in the absence of indemnification from loss; and
 - 4. the loss is within the property/casualty insurance fund's capacity to retain.

IV. Establishing Deductible Levels

Deductible levels are established by RMTD with input from state agencies. Deductibles levels that are too high may result in large losses that adversely affect agency budgets. On the other hand, deductible levels that are too low do not promote risk sharing.

RMTD offers various deductible alternatives depending on the type of insurance coverage. Agencies that select higher deductibles receive higher insurance premium discounts as a reward for assuming a higher level of risk. Agencies that select lower deductibles receive lower insurance premium discounts since more risk is assumed by RMTD or commercial insurance carriers.

A summary of insurance coverages, deductibles, and policy limits for all lines of insurance is available at RMTD's website.

V. Rules Governing

None

VI. Statutes Governing

§2-9-201, MCA

VII. Forms

None.

VIII. Administrative Use

History Log	
Approved Date:	March 21, 1998
Effective Date:	March 21, 1998
Change and Review Contact:	<u>Brett Dahl</u>
Review:	Event Review: Any event affecting this policy may initiate a review. Such events may include a change in statute, key staff changes or a request for review or change.
Scheduled Review Date:	Five years from Effective Date
Last Review/Revision:	February 16, 2007
Changes:	